STATEMENT OF
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U.S. ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE
ENVIRONMENT AND HAZARDOUS MATERIALS SUBCOMMITTEE
HOUSE ENERGY AND COMMERCE COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
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Good afternoon, Mr. Chairman and Members of the Subcommittee. I am Christine Todd Whitman, Administrator of the Environmental Protection Agency.

I welcome this opportunity to discuss the Nation's investment in drinking water infrastructure -- the pipes and treatment plants that deliver safe drinking water to our taps. These drinking water facilities are critical to protecting human health.

As a Nation, we have made great progress over the past quarter century in assuring the safety of drinking water. The Safe Drinking Water Act has served us well and provides the solid foundation we need to make sure that all Americans will continue to enjoy safe drinking water.

Our success in improving drinking water quality is the result of many programs and projects by local, State and Federal governments in partnership with the private sector. But our cooperative, intergovernmental investment in drinking water infrastructure facilities has, more than any other single effort, paid dramatic dividends for public health and water quality.

This afternoon, I want to give you a brief overview of the progress we have made in improving water quality, and the public health challenges we still face. I also will summarize what EPA knows about the need for future investment in drinking water and identify the key challenges I see in meeting this need. I will conclude with some thoughts about how Congress and others could proceed when addressing the problems of financing drinking water infrastructure.

Safe Water -- Accomplishments and Challenges

Most Americans would agree that the quality of drinking water has improved dramatically over the past quarter century.

We have made dramatic progress in improving the safety of our Nation's drinking water. Disinfection of drinking water is one of the major public health advances in the 20th century. In the early 1970's, however, growing concern for the presence of contaminants in drinking water around the country prompted Congress to pass the Safe Drinking Water Act. Today, the more than 265 million Americans who rely on public water systems enjoy one of the safest supplies of drinking water in the world.

Under the Safe Drinking Water Act, EPA has established standards for 90 drinking water contaminants. Public water systems have an excellent compliance record -- more than 90 percent of the population served by community water systems receive water from systems with no reported violations of health based standards.

In the past decade, the number of people served by public water systems meeting Federal health standards has increased by more than 23 million. Although compliance with drinking water contaminant standards is good, public health risks from drinking water

can be further reduced.

Drinking Water State Revolving Loan Fund

The primary mechanism that EPA uses to help local communities finance drinking water infrastructure projects is the State Revolving Loan Fund (SRF) established in the Safe Drinking Water Act. The SRF was designed to provide a national financial resource for clean and safe water that would be managed by States and would provide a funding resource "in perpetuity." These important goals are being achieved. Other Federal, State, and private sector funding sources are available for community water infrastructure investments.

Under the SRF program, EPA makes grants to each State to capitalize their SRFs. States provide a 20% match to the Federal capitalization payment. Local governments get loans for up to 100% of the project costs at below market interest rates. After completion of the project, the community repays the loan and these loan repayments are used to make new loans on a perpetual basis. Because of the revolving nature of the funds, the dollars invested in the SRF provides about four times the purchasing power over twenty years compared to what would occur if the funds were distributed as grants.

In addition, low interest SRF loans provide local communities with dramatic savings compared to loans with higher, market interest rates. An SRF loan at the interest rate of 2.6% (the average rate during the year 2000) saves communities 25% compared to using commercial financing at an average of 5.8%.

The drinking water SRFs, which this Committee created as part of the 1996 amendments to the Safe Drinking Water Act, were modeled after the clean water SRFs, but included several important improvements.

States were given broader authority to use drinking water SRFs to help disadvantaged communities and fund programs that look to prevent contamination of sources of drinking water and promote better management and operations of drinking water systems.

Through fiscal year 2001, Congress has appropriated $4.4 billion for the Drinking Water SRF program. EPA has reserved $83 million for monitoring of unregulated contaminants and operator certification reimbursement grants. Through June 30, 2000 States had received $2.7 billion in capitalization grants, which when combined with state match, bond proceeds and other funds provided $3.7 billion in total cumulative funds available for loans. Through June 30, 2000, States had made close to 1,200 loans totaling $2.3 billion and $1.4 billion remained available for loans. Approximately 74% of the agreements (38% of dollars) were provided to small water systems that frequently have a more difficult time obtaining affordable financing. States also reserved a total of approximately $420 million of SRF capitalization grants for other activities that support the drinking water program.

Drinking Water Infrastructure -- Future Needs

The Safe Drinking Water Act requires that EPA periodically develop a “needs survey” to identify water infrastructure investments.

One month ago, EPA released its second report on drinking water infrastructure

needs. The new survey shows that $150.9 billion is needed over the next 20 years to ensure the continued provision of safe drinking water to consumers.

The survey found that water systems need to invest $102.5 billion, approximately 68% of the total need, in what the report calls “current needs.” In most cases current needs would involve installing, upgrading or replacing infrastructure to enable a water system to continue to deliver safe drinking water. A system with a current need therefore, usually is not in violation of any health-based drinking water standard. For example, a surface water treatment plant may currently produce safe drinking water, but the plant’s filters may require replacement due to their age and declining effectiveness, if the plant is to continue to provide safe water. Future needs account for the remaining $48.4 billion in needs; for example, projects that systems would undertake over the next 20 years as part of routine replacement such as reaching the end of a facility’s service life.

The survey includes needs that are required to protect public health, such as projects to preserve the physical integrity of the water system, convey treated water to homes, or to ensure continued compliance with specific Safe Drinking Water Act regulations (See Chart 1). Transmission and distribution projects represented the largest category of need (56%) with $83 billion needed over the next 20 years. This result is not surprising given that, for most water systems, the majority of their capital value exists in the form of transmission and distribution lines. Treatment projects, which have a significant benefit for public health, make up the second largest category of needs at 25%.

Although all of the 74,000 projects in the survey would promote public health protection, also water systems identified capital needs that are directly related to specific

regulations under the Safe Drinking Water Act. Approximately 21%, or $31.2 billion, is needed for compliance with current and proposed regulations under the Act. Most (nearly 80%) of the remaining need is to comply with rules which protect consumers from harmful microbial contaminants, such as Giardia and E. coli. Most of the total needs derive from the costs of installing, upgrading and replacing the basic infrastructure that is required to deliver drinking water to consumers – costs that water systems would face independent of any Safe Drinking Water Act regulations. These findings indicate that most of the total need stems from the inherent costs of being a water system, which involves the almost continual need to install, upgrade, and replace the basic infrastructure that is required to provide safe drinking water.

The survey also examined capital need by system size. The survey found that while small systems (serving fewer than 3,300 people) represent more than 80% of the nation's community water systems, they contribute 22% to the total national need. By contrast, large systems (serving more than 50,000) represent just 2 percent of the nation's water systems, yet account for more than 44% of the national need. This finding reflects the fact that small systems collectively serve about 26 million people, whereas large systems serve a total of 138 million people.

Broader Context of Water Infrastructure Financing

Over the past year, several interest groups including the Water Infrastructure Network, and the Water Environment Federation issued reports estimating water infrastructure needs. These estimates were all substantially above those of EPA's Needs Surveys. In general, these cost estimates differ from EPA's because the methodologies

and definitions for developing them differs. For example, EPA Needs Surveys include only projects that are eligible for SRF funding under the Clean Water Act and Safe Drinking Water Act. Also, EPA requires that costs included in the Needs Surveys be established by planning or design documentation.

Nevertheless, EPA recognizes that effective decision-making concerning water infrastructure financing would benefit from a better understanding of the broader context of this effort. Key components in the broader context of water infrastructure funding that need to be more fully evaluated include:

- **Population Growth**: Steady growth and shifts in population puts substantial pressure on local governments to provide expanded drinking water and sewer services. More and more communities are searching for ways to grow that fully protects their quality of life and natural resources.

- **Aging Infrastructure**: Many sewage and drinking water pipes were installed between 50 and 100 years ago and these pipes are nearing the end of their useful life.

- **Emerging Environmental and Public Health Demands**: As our knowledge of threats to water quality and public health improves, the public expects its water infrastructure to continue to provide clean safe water at reasonable cost.

- **Increasing Operation and Maintenance Costs:** As the size and complexity of water and sewer systems increases, and facilities get older, the costs of operations and maintenance tend to increase.

- **Affordability:** Although water has historically been underpriced, some systems may find it difficult to replace or update aging water and sewer systems and keep household user charges at affordable levels. This issue needs to be kept in mind as future regulations are developed.

In an effort to better understand the issues related to water infrastructure financing, the Agency is reviewing issues related to long-term needs, assessing different analytical

approaches to estimating those needs, and estimating the gap between needs and spending. Some elements of this analysis – known as the Gap Analysis – have been presented to a range of interested parties and EPA is committed to improving and refining this important work. To this end, the EPA plans to make this analysis available for peer review by expert organizations in the near future.

FY 2002 -- Drinking Water Infrastructure Investments

The President's FY 2002 budget proposes to maintain Federal support for drinking water infrastructure. The Administration proposes to maintain capitalization of the drinking water SRFs in FY 2002. By the end of FY 2002, we expect loans issued by State drinking water SRFs to reach 2,400, with about 850 SRF funded projects having initiated operations by that date.

In addition, the law currently grants a State flexibility to transfer funds between its clean water and drinking water SRFs. The Administration supports this mechanism to help States fund their priority needs.

This proposed FY 2002 funding will help communities across the country finance important drinking water projects. As your Committee continues to study the drinking water infrastructure needs, the Administration would like to encourage a constructive dialogue on the appropriate role of the federal government in addressing these needs.

Conclusion

Thank you, Mr. Chairman, for giving me the chance to outline EPA's view of the drinking water infrastructure challenges the Nation is facing.

Let me conclude by identifying some of the key issues that Congress, the Administration, the private sector and other interested parties will need to consider as we work toward a common approach to solving drinking water infrastructure problems.

1) We need a common view of the scale of the water infrastructure problem that we face and the long-term timeframe for making needed investments.

2) We need to consider the best role for the Federal government to play in helping States and local governments finance drinking water infrastructure projects and evaluate any barriers faced by local governments in getting access to needed capital as part of this process (such as poor bond ratings, or interest rates).

3) We need to consider the strengths and weaknesses of the existing funding mechanisms and consider the best mix of financing under various circumstances. We also need to review the role that privatization might play in the future.

4) We need to review water rate structures, encourage rates that make systems sustainable and address concerns that rates are affordable, especially in poor communities.

5) We need to look closely at Federal mandates to ensure that those mandates are not needlessly costly and burdensome.

6) Finally, addressing water investment needs in years to come will not only require a strong commitment from Federal, State and local governments, it will call for innovative funding mechanisms, public/private partnerships, advancements in technologies, and a commitment to sustainable management practices.

Ensuring that our drinking water infrastructure needs are addressed will require a shared commitment on the part of the Federal, State and local governments, private business, and consumers.

I pledge that EPA will continue to work in partnership with Congress, States, local governments, the private sector and others to better understand the drinking water

infrastructure needs we face and to play a constructive role in helping to define an effective approach to meeting these needs in the future.

I will be happy to answer any questions.

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